



STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF FINANCIAL EXAMINATION

of

**EDUCATORS MUTUAL INSURANCE ASSOCIATION**

of

Murray, Utah

as of

December 31, 2008



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March 18, 2010

Honorable Neal T. Gooch, Acting Insurance Commissioner  
Utah Insurance Department  
3110 State Office Building  
Salt Lake City, Utah 84114

Honorable Alfred W. Gross, Commissioner  
Chair, Financial Condition (E) Committee, NAIC  
Virginia State Corporation Commission  
Bureau of Insurance  
Commonwealth of Virginia  
PO Box 1157  
Richmond, Virginia 23218

Honorable Christina Urias, Director  
Western Zone Secretary  
Arizona Department of Insurance  
2910 North 44<sup>th</sup> Street, Suite 210  
Phoenix, Arizona 85018-7269

Pursuant to your instructions and in compliance with statutory requirements, an examination, as of December 31, 2008, has been made of the financial condition and business affairs of:

EDUCATORS MUTUAL INSURANCE ASSOCIATION  
Murray, Utah

hereinafter referred to in this report as the Association or EMIA, and the following report of examination is respectfully submitted.

**SCOPE OF EXAMINATION**

Period Covered by Examination

We have performed our full scope multi-state financial examination of Educators Mutual Insurance Association. This examination covers the period of January 1, 2006 through December 31, 2008. The Utah Insurance Department (the Department) represented the Western Zone. The last financial examination was done as of December 31, 2005.

### Examination Procedure Employed

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Association by obtaining information about the Association including corporate governance, identifying and assessing inherent risks within the Association and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Association were considered in accordance with the risk-focused examination process.

### **SUMMARY OF SIGNIFICANT FINDINGS**

The last financial examination was completed as of December 31, 2005. All issues found during the prior examination have been resolved, except for the recurrence of various disclosure and presentation errors in the filed annual statements, as identified in the examination reports under ACCOUNTS AND RECORDS.

On April 6, 2009, the Association filed an amendment to its 2008 annual statement to correct a \$1,735,492 understatement of accident and health claims expense, in the outstanding check register. **(ACCOUNTS AND RECORDS)**

On September 4, 2009, the Association filed a second amendment to the 2008 annual statement for the following two corrections:

- Unrealized investment losses were re-classified to realized losses, in accordance with NAIC SSAP No. 26(9), for other than temporary impaired (OTTI) assets in the amount of \$1,372,892.
- Premium and service income were corrected because the Association failed to record this income from the uninsured plans in the amounts of \$248,605 and \$47,124 respectively. The first quarter 2009 statements were also amended to correctly report this income.

**(ACCOUNTS AND RECORDS)**

An examination adjustment was made to correct an error in reporting a subsidiary's reinsurance recoverable as EMIA's. This resulted in a surplus reduction of \$86,481. **(COMMENTS ON FINANCIAL STATEMENTS)**

## **SUBSEQUENT EVENTS**

In late 2009, the controller was terminated and replaced with two controllers concurrent with a restructuring of the accounting staff to have delineation of responsibilities between the “commercial” or for-profit, and the “education” or non-profit insurance entities. The oversight of the premium billing process will be split between the two controllers based on the respective company, and the responsibilities for accounts receivable and investments will also be divided between the two controllers. The change should also allow for greater oversight on the ASO/ASC reconciliations.

During late 2009, the Association began implementing and testing a new claims system, under contract from an outside software vendor.

On December 17, 2009, Andy Galano, president, announced his plans to retire effective March 31, 2010. The board of directors anticipates a candidate will be selected prior to Mr. Galano’s departure.

## **ASSOCIATION HISTORY**

### General

The Association was organized on June 16, 1935, as a non-profit mutual benefit association. The Utah Education Association, an organization of Utah educators, sponsored and participated in the creation of the Association in order to provide insurance protection to educators. The Association’s original name was Utah Teachers Welfare Association. The name was changed to its present name on October 7, 1965. In 1994, the Association filed a business name registration application with the State of Utah Division of Corporations and Commercial Code to record a “doing business as” (d/b/a) Educators Mutual Insurance Association (EMIA).

The Association operates under Utah Code Annotated (U.C.A.) § 31A-5-108 and it is authorized to transact life, annuity, and accident and health lines of insurance.

There were no amendments to the Association’s articles of incorporation or bylaws since the prior examination.

### Membership

The Association’s articles of incorporation require that members be individuals employed by Utah public school districts, institutions of higher education, other agencies or political subdivisions primarily engaged in public educational activities, or employees of organizations comprised of public education employees.

### Mergers and Acquisitions

The Association was not involved in any acquisitions, mergers, disposals, dissolutions, and purchases or sales through reinsurance during the examination period.

### **CORPORATE RECORDS**

Minutes of the meetings of the members, directors, and committees were reviewed. The minutes indicated the Association operates within the scope of its authority and the directors were properly informed of and participated in Association affairs. Generally, at each annual board of directors meeting, a detailed report of investment transactions since the previous meeting is presented and approved. In general, the minutes of meetings of members, directors, and committees adequately approved and supported the Association's transactions and events. On January 18, 2007, the Department examination report as of December 31, 2005, dated September 22, 2006, was distributed to the board of directors, as required by U.C.A. § 31A-2-204(8).

### **MANAGEMENT & CONTROL INCLUDING CORPORATE GOVERNANCE**

The Association's bylaws set the number of directors at fifteen. The members of the Association elected eleven directors, and the elected directors appointed four directors. Any vacancy may be filled by a majority vote of the board of directors.

The following persons served as directors of the Association as of December 31, 2008:

<u><b>Name and Location</b></u>	<u><b>Principal Occupation</b></u>
Arlene Arnold Orem, Utah	Uniserv Director Eastern Utah Uniserv
Michael Evans Fillmore, Utah	Teacher Millard School District
James C. Fontaine Salt Lake City, Utah	Retired CFO Deseret Mutual Benefit Administrators
Michael R. Francis Orem, Utah	Controller Utah Valley University
Paul R. Gottfredson Ephraim, Utah	Business Administrator South Sanpete School District
Wallace G. Harmer Salt Lake City, Utah	Retired Business Administrator Salt Lake School District

Michael W. Hepner West Jordan, Utah	Executive Director Utah School Employees Association
Timothy Leaman Paradise, Utah	Teacher Cache County School District
Mark Mickelsen West Jordan, Utah	Executive Director, Utah Education Association
Roger A. Pate Orem, Utah	Physical Facilities Supervisor Alpine School District
Randy R. Smart Sandy, Utah	Attorney Smart, Schofield, Shorter & Lunceford
James M. Thompson Price, Utah	Teacher Carbon School District
Scott C. Thornton Centerville, Utah	Chief Actuary Deseret Mutual Benefit Administrators
Richard R. Tranter Salt Lake City, Utah	Superintendent Murray School District
Delora I. Wight Laketown, Utah	Teacher Rich School District

There were several committees of the board of directors as of December 31, 2008, consisting of the following:

**Executive Committee**  
 Wallace G. Harmer, Chair  
 Rolando I. Galano  
 James C. Fontaine  
 Michael W. Hepner  
 Michael R. Francis

**Board Review Committee A**  
 Michael W. Hepner, Chair  
 Paul R. Gottfredson  
 Randy R. Smart  
 Richard R. Tranter  
 Delora I. Wight

**Audit Committee**

Michael R. Francis, Chair  
Arlene Arnold  
Wallace G. Harmer  
Roger A. Pate  
James M. Thompson

**Board Review Committee B**

Michael R. Francis, Chair  
Arlene Arnold  
Wallace G. Harmer  
Roger A. Pate  
James M. Thompson

**Finance & Risk Management Committee**

James C. Fontaine, Chair  
Michael Evans  
Timothy Leaman  
Scott C. Thornton

**Board Review Committee C**

James C. Fontaine, Chair  
Michael Evans  
Timothy Leaman  
Scott C. Thornton

**Legislative Committee**

Michael W. Hepner, Chair  
Paul R. Gottfredson  
Randy R. Smart  
Richard R. Tranter  
Delora I. Wight

Officers of the Association as of December 31, 2008, were the following:

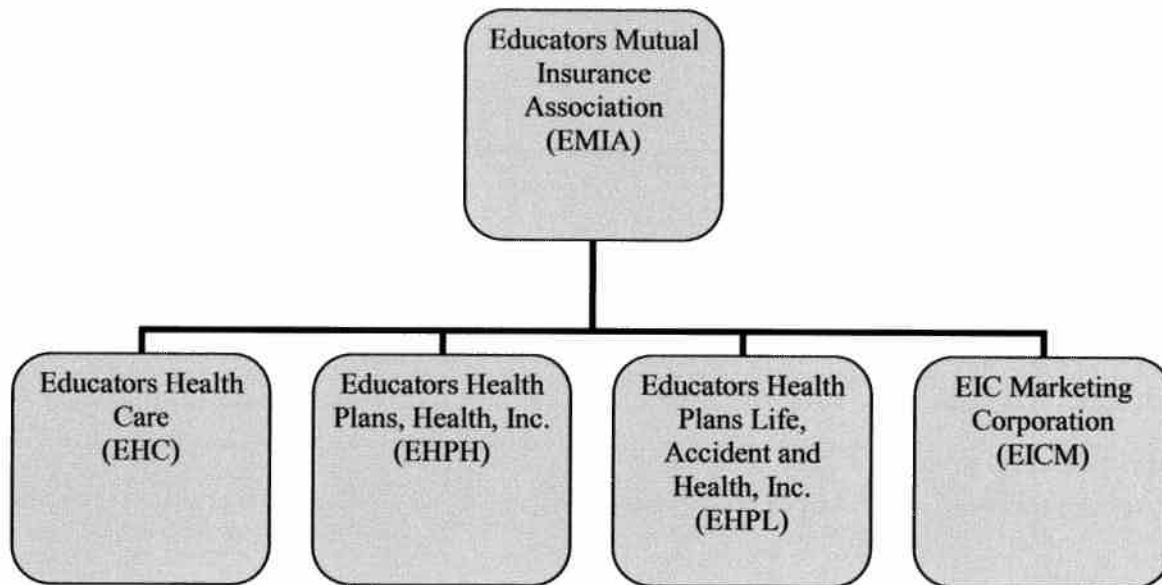
<u>Name and Location</u>	<u>Title and Principal Occupation</u>
Rolando I. Galano	President/Chief Executive Officer
Jennifer Q. Niesen	Secretary/Chief Operating Officer
David S. Glauser	Treasurer/Chief Financial Officer
Steven C. Morrison	Vice President
Joseph H. Campbell	Vice President
Tiffany Bermingham	Vice President
Christie H. Hawkes	Vice President
Lavern K. Zaloba	Vice President

Biographical affidavits for officers and directors were filed with the Department in accordance with U.C.A. § 31A-5-410(1)(a)(ii).



### Holding Company System

The Association is wholly owned and controlled by its membership. An organization chart illustrating the holding company system follows:



Educators Mutual Insurance Association (EMIA) is a Utah domiciled non-profit mutual life insurance company organized in 1935, owned one hundred percent by its member policyholders. Educators Health Care (EHC) is a Utah domiciled non-profit health maintenance organization formed in 1979 to provide medical and dental insurance products to school districts and other governmental employee groups. Educators Health Plans, Health, Inc. (EHPH) and Educators Health Plans Life, Accident and Health, Inc. (EHPL) were both formed in 2006 as Utah for-profit insurers to provide insurance products to non-governmental employee groups. EIC Marketing Corporation (EICM) is a for-profit brokerage firm organized to market insurance and employee benefit products.

### Transactions with Affiliates

The following identifies the Association's management and administrative agreements with affiliates, which delineates responsibilities and control of the Association's transactions and operations.

Effective December 17, 1997, the Association entered into an administrative services agreement with its affiliate EHC. According to the terms of the agreement, EMIA provides marketing and administrative services to EHC, for which EHC pays EMIA a fee. The agreement was amended twice during the examination period, on February 1, 2006 and September 1, 2007, changing the fee structure in order to more properly allocate costs as the companies have evolved. Currently the fee paid for services is equal to ten percent (10%) of all premiums received by EHC. During 2008, the fees

paid by EHC to EMIA totaled \$259,392. The Association provided an explanation to the Department with its Form D filing, explaining the reasons behind the changes.

The Association also provides EICM with administrative and accounting services through a management agreement in effect since January 1, 1999. EICM pays the Association ten percent (10%) of its revenue per annum for the services received.

The Association assumes 100% of EHC's group medical business pursuant to a reinsurance agreement in effect since January 1, 1999. On August 23, 2006, the reinsurance agreement was amended to revise the method of reinsurance premium collection, as recommended during the prior examination.

Effective February 1, 2006, the Association entered into management agreements with each of the new subsidiaries, EHPH and EHPL. The agreements were approved by the Department on May 15, 2006. According to the agreement EMIA provides marketing and administrative services to both new subsidiaries, including financial and accounting, enrollment, billing, and claims processing. The management agreements specify the fee structure and settlement requirements. In consideration for these services these companies pay EMIA a fee based on fifteen percent (15%) of premium income. During 2008, the reported management fees paid by EHPH and EHPL were \$793,265 and \$788,615, respectively.

#### **FIDELITY BONDS AND OTHER INSURANCE**

The minimum fidelity coverage suggested by the NAIC for the Association including its insurance subsidiaries is not less than \$600,000. As of the examination date, the Association and insurance subsidiaries were covered by a fidelity bond of \$800,000, which met the NAIC suggested minimum. The Association also had general liability policies, including the Errors & Omissions policy and Directors' & Officers' liability policy, as well as property and automobile coverage.

#### **PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS**

The Association provides medical, dental, prescription card, long-term disability, and vision benefits to eligible employees. The Association also provides a contribution to the Utah Retirement Systems (URS), an organization for public employees in the State of Utah. In addition, employees have the option of making voluntary contributions to the Association's 401(k) plan on a tax-deferred basis up to IRS limits. For eligible employees, after one year of employment, the Association makes a contribution equal to a percentage of salary for eligible employees, with graduated vesting periods up to six years. The Association also contributes additional compensation for employees who are participating in the noncontributory pension plan.

The Association also provides certain health care insurance benefits (postretirement benefits) for retired employees. A provision for its obligations was made in the financial statements for post-retirement benefits, calculated by an independent actuarial firm, in the amount of \$1,565,000.

## **TERRITORY AND PLAN OF OPERATION**

As of the examination date the Association was authorized to conduct life, annuity, and accident and health business in the states of Idaho and Utah. No life or annuity policies were issued during the examination period. The Association issued comprehensive medical, dental, vision and waiver of premium policies. It also assumed 100 percent (100%) of health policies from its subsidiary EHC.

The Association's accident and health line of business is primarily self-funded Administrative Services Only (ASO) and Administrative Services Contract (ASC) plans, with specific and aggregate stop loss insurance coverage available. Although a few groups retained fully insured accident and health plans.

The Association marketed its products through its affiliated brokerage firm, EICM, on a personal contract basis. In addition, the Association provided seminars, training sessions, and faculty meetings with employer groups. The Association also had an advisory panel consisting of some brokers throughout the state that met to discuss products, strategies and issues.

## **GROWTH OF ASSOCIATION**

The following exhibit depicts the Association's financial results throughout the examination period:

	2008	2007	2006
Net admitted assets	64,701,241	61,772,549	53,977,319
Total liabilities	29,546,109	28,390,581	25,434,539
Total capital stock & surplus	35,109,912	33,381,968	28,542,780
Net income	2,322,088	4,703,930	4,919,321
Direct - Total premiums	36,991,981	28,495,295	29,348,277
Net Premium	48,057,034	39,607,237	40,445,114
Net Premium/ Surplus Ratio	136.88%	118.65%	141.70%

## **MORTALITY AND LOSS EXPERIENCE**

EMIA experienced shifting ratios of actual to expected death benefits but the amounts are neither significant or material, since the Association is running off its old life business.

The following exhibits show the mortality and underwriting results of the Association for the period under examination. The amounts were compiled from the Association's filed annual statements and from examination results.

Life

	2008	2007	2006
Life Benefit Payments	24,940	64,825	7,312
Reserve Deductions	40,492	35,830	13,399
Net Benefits (actual)	(15,552)	28,995	(6,087)
Tabular cost (expected)	33,050	30,736	30,285
Ratio of actual to expected	-47.06%	94.34%	-20.10%

#### Accident and Health

	2008	2007	2006
Premiums earned	26,904,017	27,926,448	29,063,556
Incurred claims amount	30,576,436	21,180,101	20,471,068
Change in contract reserves	0	0	(3,163,661)
Loss ratio	114%	76%	60%
Number of policies	44,800	45,493	38,891
Number of covered lives	107,367	109,996	89,591
Member months	743,573	762,521	656,496

### REINSURANCE

#### Assumed

The Association assumes one hundred percent (100%) of EHC's health business. (TRANSACTIONS WITH AFFILIATES). During 2008, the Association received \$11,961,032 from EHC in reinsurance premiums.

#### Ceded

The Association cedes individual term life to The Prudential Insurance Company of America (Prudential) through a yearly renewable term reinsurance agreement. The Association also has stop loss contracts with Beneficial Life Insurance Company, covering its accidental death and dismemberment policies, and group term life policies.

At December 31, 2008, the Association had a quota share contract in effect with Munich Reinsurance America, Inc. (Munich Re), whereby Munich Re participates fifty-percent (50%) in all net loss under the individual and group Medicare Advantage business.

The Association also had a group medical excess of loss contract with Munich Re, on its Utah Valley State College business for paid specific coverage only. Munich Re assumes 100% ultimate net loss per each covered person per each agreement year, after EMIA's retention of the first \$400,000, up to the level of \$2,500,000, not exceeding \$2,100,000 assumed business.

EMIA and subsidiaries were each covered by a group medical excess of loss agreement with Munich Re, as respects the fully insured, small group health policies, and medical stop loss policies. The contract provides 100% stop loss of ultimate net loss per each covered person per each agreement year, after EMIA's retention of the first \$300,000, up to the level of \$2,500,000, not to exceed \$2,200,000 assumed business.

Both of the excess of loss contracts with Munich Re replaced similar contracts with HCC Life Insurance Company which terminated on July 1, 2008, and September 1, 2008, respectively.

## **ACCOUNTS AND RECORDS**

The Association utilizes a centralized computer record processing system, supplemented by ancillary records maintained either manually or on personal computers. A trial balance, as of December 31, 2008, was prepared from the Association's general ledger.

An independent certified public accounting firm audited the Association's records during the period covered by this examination. Audit reports generated by the auditors for the years 2006 through 2008 were made available for the examiner's use.

As of December 31, 2008, the assets in the statutory deposit custodial account held for the benefit of all policyholders, were not secured by a compliant custodial agreement as required by Utah Code Annotated (U.C.A.) § 31A-4-108. During early 2009, prior to the start of the financial examination the Association and the Department were working together to resolve this issue. A compliant custodial agreement was executed on April 27, 2009, meeting all requirements of Utah Administrative Code (U.A.C.) Rule R590-178, including approval by the Board of Directors on May 28, 2009.

We noted certain sections of the Association's financial statements that lacked proper reporting or disclosure, as required by the NAIC Annual Statement Instructions and Statements of Statutory Practices (SSAP) promulgated by the National Association of Insurance Commissioners (NAIC). These sections are discussed as follows:

- The 2008, annual statements were amended and re-filed on April 6, 2009, correcting an understatement of accident and health claims expense. The correction increased the Association's claims expense by \$1,735,492, with a corresponding decrease to net income. The understatement of claims expense was caused by an error in the voided check report, which was discovered during post year-end closing procedures in mid March 2009, after issuance of the annual statement. The external auditors conducted a special review of the correcting entries prior to booking the adjustment, amending the annual statements, and issuing the audited financial statements.
- On August 5, 2009, management contacted the Department regarding errors related to the Association's premium income from its uninsured plans. The

Association failed to record and report premium and service income from the uninsured plans in the amounts of \$248,605 and \$47,124 respectively. The Department granted the Association's request for an extension of time to file the second quarter 2009 statements with the corrections to premium. The amended statements were filed on September 4, 2009.

- The Association did not report other than temporary impaired (OTTI) assets as realized losses in accordance with the SSAP No. 26, paragraph 9. These realized losses of \$1,372,892 were included in the 2008 audited financial statements. The Association amended its annual statements on September 4, 2009 to reflect the realized loss of \$1,372,892.

We recommend the Association implement a training program for its accounting department employees including the NAIC Annual Statement preparation courses. Training will significantly improve the accuracy of the financial statements, and improve compliance to the NAIC Annual and Quarterly Statement Instructions and the SSAPs.

### STATUTORY DEPOSITS

The Association's statutory deposit requirement was \$400,000, pursuant to U.C.A. § 31A-5-211(2). The examination confirmed that the Association adequately maintained the following statutory deposits with the State of Utah, in accordance with U.C.A. § 31A-4-105, for the benefit of all policyholders, claimants and creditors.

<u>State</u>	<u>Description of Deposit</u>	<u>Par Value</u>	<u>Book Value</u>	<u>Fair Value</u>
Utah	FNMA, 3.25%, mat 5/21/2010	\$100,000	\$100,979	\$100,810
Utah	FHLB, 3.25%, mat 12/10/2010	500,000	503,445	514,015
Utah	US Treasury Note, 4.5%, mat 4/30/2009	500,000	499,558	507,070
Total	Deposits for the Benefit of All Policyholders	\$1,100,000	\$1,103,982	\$1,121,895

### FINANCIAL STATEMENTS

The following financial statements were prepared from the Association's accounting records and the valuations and determination made during the examination. The accompanying COMMENTS ON FINANCIAL STATEMENTS are an integral part of the financial statements.

EDUCATORS MUTUAL INSURANCE ASSOCIATION  
BALANCE SHEET (ASSETS)  
as of December 31, 2008

	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 35,047,350	
Preferred stocks	2,391,943	
Common stocks	6,266,418	
Real estate - properties occupied by company	1,631,422	
Cash and short-term investments	13,831,228	
Contract loans	-	
Investment income due and accrued	588,755	
Uncollected premiums and agents' balances	1,372,941	
Deferred premiums, agents' balances, and installments	3,386	
Amounts recoverable from reinsurers	508,517	(1)
Amounts receivable relating to uninsured plans	1,966,425	
Current federal and foreign income tax recoverable	-	
Net deferred tax asset	-	
Electronic data processing equipment and software	139,270	
Receivable from parent, subsidiaries and affiliates	42,928	
Healthcare and other amounts receivable	824,178	
Total assets	<u>\$ 64,614,760</u>	

EDUCATORS MUTUAL INSURANCE ASSOCIATION  
BALANCE SHEET (LIABILITIES, SURPLUS AND OTHER FUNDS  
as of December 31, 2008

LIABILITIES

Notes

Aggregate reserve for life contracts	\$855,233
Aggregate reserve for accident and health contracts	5,976,203
Contract claims - Life	6,457
Contract claims - Accident and health	7,782,848
Premiums and annuity considerations	216,394
Interest maintenance reserve	954,872
Commissions to agents due or accrued	496
General expenses due or accrued	3,051,658
Taxes, licences and fees due or accrued	70,664
Current federal and foreign income taxes	115,913
Amounts withheld or retained by company	719,169
Remittances and items not allocated	215
Asset valuation reserve	938,388
Payable to parent, subsidiaries and affiliates	350,917
Liability for amounts held under uninsured plans	7,650,069
Aggregate write-ins for liabilities	901,833
Total liabilities	<u>\$29,591,329</u>

SURPLUS, AND OTHER FUNDS

Unassigned funds (surplus)	<u>\$35,023,431</u>	(1)
Total Surplus	<u>\$35,023,431</u>	(2)
Total liabilities, surplus and other funds	<u><u>\$64,614,760</u></u>	



EDUCATORS MUTUAL INSURANCE ASSOCIATION  
SUMMARY OF OPERATIONS  
for the Year Ended December 31, 2008

		<u>Notes</u>
Premiums and annuity considerations		
for life and accident and health contracts	\$ 48,057,034	
Net investment income	2,614,716	
Amortization of interest maintenance reserve (IMR)	77,173	
Aggregate write-ins for miscellaneous income	<u>2,788,813</u>	
Total revenues	<u>\$ 53,537,736</u>	
Death benefits	24,940	
Disability benefits and benefits under		
accident and health contracts	40,157,524	(1)
Increase in aggregate reserves for		
life and accident and health contracts	<u>693,233</u>	
Total benefits and reserves	<u>\$ 40,875,697</u>	
Commissions on premiums, annuity considerations		
and deposit type contract funds	495,519	
General insurance expenses	7,921,905	
Insurance taxes, licenses and fees, excluding		
federal income taxes	<u>588,107</u>	
Total expenses	<u>\$ 9,005,531</u>	
Net gain from operations before dividends and		
federal income taxes	3,656,509	
Dividends to policyholders	0	
Net gain from operations after dividends		
and before federal income taxes	\$ 3,656,509	
Federal and foreign income taxes incurred	<u>48,010</u>	
Net gain from operations after dividends and taxes		
and before realized capital gains or (losses)	3,608,499	
Net realized capital gains (losses)	<u>(1,372,892)</u>	
Net income (loss)	<u><u>\$ 2,235,607</u></u>	(1)

EDUCATORS MUTUAL INSURANCE ASSOCIATION  
RECONCILIATION OF CAPITAL AND SURPLUS  
2005 through 2008

	2005	2006	2007	Per Exam 2008	Notes
Capital and surplus prior reporting year	\$18,841,023	\$ 23,996,236	\$ 28,542,780	\$ 33,167,156	
Net income or (loss)	4,792,842	4,919,321	4,703,930	2,235,607	(1)
Change in net unrealized capital gains (losses)	551,733	(411,589)	(454,249)	(58,380)	
Change in nonadmitted assets	(89,366)	114,503	55,684	34,127	
Change in asset valuation reserve	(99,996)	(75,691)	319,011	(355,079)	
Surplus adjustments: Paid in Rounding	0				
Net change in capital and surplus	<u>5,155,213</u>	<u>4,546,544</u>	<u>4,624,376</u>	<u>1,856,275</u>	
Capital and surplus end of reporting year	<u><u>\$ 23,996,236</u></u>	<u><u>\$ 28,542,780</u></u>	<u><u>\$ 33,167,156</u></u>	<u><u>\$ 35,023,431</u></u>	(2)

**COMMENTS ON FINANCIAL STATEMENTS**

(1) Reinsurance recoverable \$508,517

The Association reported a \$594,998 reinsurance recoverable, which was reduced by the examination to \$508,517, with the \$86,481 offset to unassigned funds. EMIA incorrectly reported a reinsurance recoverable from HCC Life Insurance Company belonging to its subsidiary EHPH. An examination adjustment is also being made to the EHPH financial examination report.

(2) Capital and surplus \$35,023,431

The Association's capital and surplus was determined to be \$35,023,431, which is \$86,481 less than the \$35,109,912 reported by the Association as of December 31, 2008. The following schedule identifies the examination changes:

Description	Annual Statement Dr (Cr)	Per Examination	Change in Surplus Inc. (Dec.)	Notes
Reinsurance recoverable	\$ 594,998	\$ 508,517	<u>\$ (86,481)</u>	(1)
Total examination changes			<u>(86,481)</u>	
Total capital and surplus per Association			<u>35,109,912</u>	
Total capital and surplus per examination			<u><u>\$ 35,023,431</u></u>	(2)

The Association's minimum capital requirement was \$400,000 as defined by U.C.A. § 31A-5-211(2)(a). As defined by U.C.A. § 31A-17 Part 6, the Association's total adjusted capital was \$36,583,280, which exceeded its company action level risk-based capital (RBC) of \$9,829,180 by \$26,754,100.

### **SUMMARY OF RECOMMENDATIONS**

The examination recommends that the Association, at the group level, implement a program of training and process review to improve compliance to NAIC Statement Instructions and the Statutory Accounting Principles, as adopted by Utah Code.

## ACKNOWLEDGEMENT

Michael Mayberry, FSA, MAAA, of L&E Actuaries and Consultants, performed the actuarial phase of the examination. Colette M. Hogan Sawyer, CFE, CPM, PIR, Assistant Chief Examiner, Donald Catmull, CFE, co-reviewer, representing the Department, supervised the examination. Aaron Phillips, CFE, and Teresa Trusty, APIR, representing the Department, participated in the examination. Brandon Thomas, HISP, of Huff, Thomas and Company performed the information systems review. They join the undersigned in acknowledging the assistance and cooperation extended during the course of this examination by officers, employees, and representatives of the Association.

Respectfully Submitted,

A handwritten signature in cursive script, reading "Carolyn Maynard".

Carolyn Maynard, CFE, Examiner-in-Charge  
Huff, Thomas & Company  
Representing the Utah Insurance Department